

Message Text

CONFIDENTIAL

PAGE 01 HONG K 12676 01 OF 02 240840Z

10

ACTION EA-09

INFO OCT-01 ISO-00 SAJ-01 EUR-12 CU-02 CIAE-00 DODE-00

PM-04 H-02 INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01

SP-02 SS-15 USIA-06 AID-05 COME-00 EB-07 FRB-03

TRSE-00 XMB-02 OPIC-03 CIEP-01 LAB-04 SIL-01 OMB-01

/098 W

----- 118494

R 240712Z OCT 75

FM AMCONSUL HONG KONG

TO SECSTATE WASHDC 7678

INFO AMEMBASSY TAIPEI

AMEMBASSY SINGAPORE

AMEMBASSY TOKYO BY POUCH

FBIS OKINAWA

USLO PEKING BY POUCH

CINCPAC HONOLULU HI

C O N F I D E N T I A L SECTION 1 OF 2 HONG KONG 12676

CINCPAC FOR POLAD

E.O. 11652: GDS

TAGS: ECON, PINT, CH

SUBJECT: PRC INDUSTRIAL ADVANCE--ENCOURAGING DESPITE TROUBLE SPOTS

REF: HK 7767

SUMMARY: BEGINNING WITH THE NATIONAL PEOPLE'S CONGRESS, CHINA HAS EMBARKED ON A MASSIVE DEVELOPMENT DRIVE TO BUILD A "POWERFUL, MODERN SOCIALIST CHINA" BEFORE THE END OF THE CENTURY. AFTER A SLUGGISH START, IN PART THE RESULT OF HOLDOVER PROBLEMS FROM 1974 AND IN PART BECAUSE OF INHERENT STRUCTURAL IMBALANCES, ENCOURAGING OVERALL PROGRESS HAS BEEN MADE, UNDERLINED BY A CLAIM OF 17.3 PERCENT GROWTH IN INDUSTRIAL OUTPUT VALUE FOR THE FIRST EIGHT MONTHS OF 1975.

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 HONG K 12676 01 OF 02 240840Z

THIS DOES NOT, HOWEVER, PROVIDE A COMPLETE ASSESSMENT OF THE

ECONOMY AS HAS BEEN REVEALED IN A NUMBER OF CENTRAL DIRECTIVES
FOCUSING CRITICISM ON A FEW KEY INDUSTRIAL SECTORS
PUNCTUATED BY THE OCCASIONAL SURFACING OF FACTIONAL AND
LABOR PROBLEMS IN A NUMBER OF AREAS. WHILE LABOR-RELATED
PROBLEMS ARE POTENTIALLY DISRUPTIVE, THEY HAVE SO FAR
APPARENTLY BEEN LOCALIZED. TO THE EXTENT THAT PRAGMATIC
POLICIES SET FORTH AT THE NPC ARE MAINTAINED AND
DISRUPTIVE POLITICAL AND LABOR RELATED FACTORS ARE DAMPENED,
OVERALL INDUSTRIAL GROWTH SHOULD CONTINUE TO RETURN TO NORMAL
PATTERNS, ALTHOUGH STILL CHARACTERIZED BY UNEVEN PROGRESS IN
INDIVIDUAL SECTORS. END SUMMARY

1. THE PRC'S APPARENT INDUSTRIAL RECOVERY IN 1975 OVER 1974
HAS BEEN UNDERLINED BY THE RECENT CLAIM OF A WHOPPING 17.3 PER-
CENT INCREASE IN GROSS VALUE OF OUTPUT FOR THE FIRST EIGHT
MONTHS OF 1975 OVER THE EQUIVALENT PERIOD OF 1974 (HK 11621).
WHILE THIS IS A GOOD AGGREGATE RECORD, REFLECTING THE REGIME'S
CURRENT ECONOMIC DRIVE, IT NEVERTHELESS DOES NOT PROVIDE A
COMPLETE ASSESSMENT OF THE ECONOMY AS HAS BEEN POINTED UP BY
VARIOUS CENTRAL DIRECTIVES--FROM MID-1974 ON--CRITICAL OF A
NUMBER OF KEY INDUSTRIAL SECTORS. THE HIGH PERCENTAGE INCREASES
ANNOUNCED SO FAR THIS YEAR SHOULD ALSO BE SEEN IN THE PERSPECTIVE
OF 1974'S LOW GROWTH RATE--ESPECIALLY OVER THE FIRST EIGHT MONTHS.

2. SUBSTANTIAL IMBALANCES EXIST WITHIN THE CHINESE ECONOMY AND
MOST SECTORS, EVEN THE RAPIDLY-GROWING PETROLEUM INDUSTRY, HAVE
WEAK LINKS AND BOTTLENECKS. WHILE FACTIONALISM AND LABOR UNREST
OVER THE PAST YEAR OR SO HAVE CONTRIBUTED TO ECONOMIC WOES,
STRUCTURAL IMBALANCES GROWING OUT OF FUNDAMENTAL PLANNING
AND INVESTMENT DEFICIENCIES ARE OFTEN AT THE ROOT OF THE
PROBLEM. THESE IMBALANCES BECOME MORE OBVIOUS DURING SUCH
PERIODS AS THE CURRENT PRODUCTION DRIVE WHEN INCREASED
OUTPUT IN ONE PART OF THE PRODUCTION PROCESS MAY PILE UP
AGAINST OVERBURDENED CAPACITY IN ANOTHER PART, OR WHEN ONE
SECTOR CANNOT MEET THE DEMAND OF ANOTHER.

3. THIS IS PARTICULARLY TRUE OF THE OFT-CRITICIZED IRON AND
STEEL INDUSTRY, WHERE THE DEVELOPMENT OF RAW MATERIALS
PRODUCTION AT ONE END AND STEEL FINISHING AT THE OTHER HAVE NOT
KEPT PACE WITH CRUDE STEEL PRODUCTION AT THE "MIDDLE" OF THE
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 HONG K 12676 01 OF 02 240840Z

PROCESS. SIMILAR PROBLEMS EXIST IN THE KEY SECTORS OF COAL
AND TRANSPORT. A LOW RATE OF INVESTMENT IN CAPITAL CONSTRUCTION,
MECHANIZATION, AND BENEFICIATION HAS PLAGUED COAL OUTPUT, WHILE
POOR MECHANIZATION OF LOADING AND UNLOADING FACILITIES HAS
HINDERED RAIL PERFORMANCE, DESPITE A LARGE EXPANSION OF THE
RAIL NETWORK THROUGH NEW LINES AND DOUBLE TRACKING.

4. GIVEN THESE INHERENT ECONOMIC LIMITATIONS, THERE IS

LITTLE MARGIN FOR FACTIONALISM AND LABOR UNREST, ESPECIALLY WHEN UNDER THE PRESSURE OF THE CURRENT ECONOMIC DRIVE RAISING LABOR PRODUCTIVITY IS THE MOST OBVIOUS MEANS OF ACHIEVING QUICK RETURNS. ATTEMPTING TO BRIDGE THE GAP, THE LEADERSHIP HAS FOCUSED CENTRAL DIRECTIVE CRITICISM ON ALL THREE OF THE INDUSTRIES MENTIONED ABOVE, BEGINNING WITH COAL IN MID-1974, RAILWAYS EARLIER THIS YEAR AND STEEL IN JUNE. WITH "DISCIPLINE" AS A KEY THEME OF THE DICTATORSHIP CAMPAIGN SINCE FEBRUARY, LEADERSHIP CONCERN ABOUT LABOR PRODUCTIVITY IS OBVIOUS. 5. IN PART THE RESULT OF STRUGGLES CARRIED OVER FROM THE CULTURAL REVOLUTION AND EXACERBATED BY LAST YEAR'S ANTI-LIN/CONFUCIUS CAMPAIGN, THE ISSUE OF FACTIONALISM REMAINS A PROBLEM IN 1975 AND HAS RESULTED IN NUMEROUS, THOUGH PROBABLY LOCALIZED, FACTORY CLOSURES OR SLOWDOWNS IN PRODUCTION. THE WORST CASE TO DATE HAS BEEN THE ONE REVEALED IN CHEKIANG WHERE THE REGIME FINALLY HAD TO RESORT TO THE USE OF PLA TROOPS TO RESTORE PRODUCTION AND CALM A VIOLENT FACTIONAL CONFRONTATION (HK 8522; HK 8610).

6. FACTIONALISM AND LABOR UNREST IN CHINA'S FACTORIES ARE ALSO MORE SERIOUSLY REFLECTIVE OF AN OVERALL MALAISE THAT HAS AFFECTED RESPONSIVENESS AND ENTHUSIASM ACROSS THE BOARD IN CHINA. BUFFETED BY LONG PERIODS OF POLITICAL CAMPAIGNING, CADRES AND MANAGERS HAVE OFTEN APPEARED HESITANT TO ENFORCE CENTER INSTRUCTIONS ON A LABOR FORCE FACING GREATER WORK DEMANDS WITHOUT CORRESPONDING MATERIAL REWARDS AND ALREADY SOMEWHAT DISGRUNTLED OVER APPARENT LACK OF RESPONSE TO WAGE ISSUES.

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 HONG K 12676 02 OF 02 240843Z

10

ACTION EA-09

INFO OCT-01 ISO-00 SAJ-01 EUR-12 CU-02 CIAE-00 DODE-00

PM-04 H-02 INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01

SP-02 SS-15 USIA-06 AID-05 COME-00 EB-07 FRB-03

TRSE-00 XMB-02 OPIC-03 CIEP-01 LAB-04 SIL-01 OMB-01

/098 W

----- 118569

R 240712Z OCT 75

FM AMCONSUL HONG KONG
TO SECSTATE WASHDC 7679
INFO AMEMBASSY TAIPEI
AMEMBASSY SINGAPORE
AMEMBASSY TOKYO BY POUCH
FBIS OKINAWA
USLO PEKING BY POUCH
CINCPAC HONOLULU HI

CONFIDENTIAL SECTION 2 OF 2 HONG KONG 12676

CINCPAC FOR POLAD

7. THUS, UNDER THE MEDIA RUBRIC OF "STRENGTHENING MANAGEMENT", A MAJOR THRUST OF THE CURRENT ECONOMIC DEVELOPMENT CAMPAIGN--AS REVEALED BY THE CENTRAL DIRECTIVES--HAS BEEN TO ENSURE IMPLEMENTATION OF CENTER INSTRUCTIONS AND TO ENSURE THAT THE CONCENTRATION ON PRODUCTION GOALS WAS ACTUALLY FOLLOWED THROUGH AND NOT SIDESTEPPED FOR FEAR THAT THIS WAS CONTRADICTORY TO THE IDEOLOGUE EMPHASIS ON REVOLUTION BEFORE PRODUCTION. THROUGHOUT THE SERIES OF CENTRAL DIRECTIVES THAT HAVE SPECIFICALLY REFERRED TO THE ECONOMY--THERE HAVE BEEN AT LAST 10 THIS YEAR--THE REGIME HAS CONSISTENTLY HARPED ON THE NEED TO OBEY INSTRUCTIONS AND CARRY OUT ORDERS.

8. OF THE THREE SECTORS SINGLED OUT IN CENTRAL DIRECTIVES, COAL AND RAIL TRANSPORT, WITH LOCAL EXCEPTIONS, HAVE APPARENTLY CONFIDENTIAL

CONFIDENTIAL

PAGE 02 HONG K 12676 02 OF 02 240843Z

RESPONDED POSITIVELY AND WERE REPORTED TO HAVE MET THEIR TARGETS AT MID-YEAR AND OVER THE FIRST EIGHT MONTHS. THE IRON AND STEEL SECTOR HAS BEEN SLOWER, AND THE ABSENCE OF MID-YEAR AND IEHGT MONTH CLAIMS LEAVES THE CLEAR IMPLICATION THAT MANAGEMENT AND LABOR HAVE BEEN UNABLE OR UNWILLING TO RESPOND ENTHUSIASTICALLY ENOUGH TO OVERCOME THE INDUSTRY'S PROBLEMS. IN THE CASE OF IRON AND STEEL WHERE PRODUCTION IS CONCENTRATED IN A RELATIVELY SMALL NUMBER OF PLANTS (EIGHT PLANTS ACCOUNT FOR OVER 70 PER CENT OF TOTAL CRUDE STEEL OUTPUT), DIFFICULTIES AT ONLY ONE OR TWO PLANTS (SUCH AS HAVE BEEN REPORTED AT VARIOUS TIMES FOR SHANGHAI, WUHAN AND PAOTOU) ARE LIKELY TO AFFECT OVERALL PRODUCTION MORE DIRECTLY THAN MAY BE THE CASE IN OTHER SECTORS.

9. THERE ARE OBVIOUS LIMITATIONS ON HOW MUCH ECONOMIC MILEAGE THE CENTER CAN GET OUT OF INCREASED LABOR DISCIPLINE AND "SOCIALIST ENTHUSIASM." NOT WISHING TO INCREASE ITS WAGE BILL AT A TIME OF NATIONAL SACRIFICE FOR LONG-RANGE ECONOMIC GOALS AND RESTRAINED BY IDEOLOGICAL CONSIDERATIONS THAT HAVE PERHAPS BEEN GIVEN RENEWED IMPETUS BY THE SHIU HU CHUAN CAMPAIGN AND THE NEW REEMPHASIS ON LEARNING FROM TACHAI, LEADERSHIP OPTIONS IN HANDLING LABOR UNREST MAY HAVE BECOME MORE

RESTRICTED. THE TIMING AND NATURE OF THE LEADERSHIP'S
EVENTUAL RESPONSE TO THE PROBLEM OF WAGE DISSATISFACTION
WILL OBVIOUSLY BEAR HEAVILY ON THE DEGREE OF LABOR COOPERATION
IN THE CRITICAL PERIOD AHEAD.

10. AS THE FOURTH FIVE YEAR PLAN DRAWS TO A CLOSE AND THE
FIFTH LOOMS NEAR, THE OUTLOOK FOR CHINA'S INDUSTRIAL GROWTH
IS ONE OF GUARDED OPTIMISM. ECONOMIC IMBALANCES ARE LIKELY
TO CONTINUE TO BE REFLECTED IN UNEVEN GROWTH PATTERNS OF IN-
DIVIDUAL SECTORS AND FACTIONALISM AND LABOR UNREST MAY CONTINUE
TO CROP UP IN GEOGRAPHIC AREAS, INDIVIDUAL PLANTS OR EVEN ENTIRE
INDUSTRIES. NEVERTHELESS, ON BALANCE, SO LONG AS THE PRAGMATIC
APPROACH TO ECONOMIC DEVELOPMENT SET FORTH BY CHOU EN-LAI AT
THE NPC IS MAINTAINED AND TO THE EXTENT THAT FACTIONALISM AND
LABOR UNREST REMAIN LOCALIZED, CHINA SHOULD BE ABLE TO CONTINUE
TO RETURN TO THE OVERALL GROWTH PATTERNS PREVAILING PRIOR
TO 1974. CROSS

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptoning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: INDUSTRIAL DEVELOPMENT, ECONOMIC DEVELOPMENT, LABOR RELATIONS, REPORTS
Control Number: n/a
Copy: SINGLE
Draft Date: 24 OCT 1975
Decapton Date: 01 JAN 1960
Decapton Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975HONGK12676
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750370-0116
From: HONG KONG
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19751020/aaaaascl.tel
Line Count: 240
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 09 JUL 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <09 JUL 2003 by ShawDG>; APPROVED <10 JUL 2003 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: PRC INDUSTRIAL ADVANCE--ENCOURAGING DESPITE TROUBLE SPOTS
TAGS: ECON, PINT, CH, HK
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006